At issue: Facilitating whose power?
IFI policy influence in Nigeria's energy sector

Despite rhetoric to the contrary, the World Bank's energy portfolio still fails to reap the double dividend of renewable energy technologies that would tackle both energy poverty and climate change. Nigerian economic policies shaped by the World Bank and IMF have so far led to a dysfunctional electricity privatisation process, a heavy and as yet unfulfilled reliance on reform of the gas sector, and the failure to make any widespread progress on energy poverty and renewable energy.

It would be simplistic to lay the disaster of Nigeria's energy and power sector at the feet of the IFIs. However, their influence can not be disconnected from the corruption carried out by the country's elites that has exacerbated poverty and failed to provide power to the nation. Nor can it be separated from the decades of egregious environmental and human rights violations committed in the interests of international oil companies.

Nigeria is the region's largest oil producer and holds approximately one third of the proven gas reserves of Africa. Yet at least 60 per cent of its population lack access to electricity for their basic needs, with only a fifth of rural households covered.

Nigeria's epileptic energy supply is one of the key factors hampering its development. In 2005 the Bank estimated that to increase access to 75 per cent would require over $10 billion in investments. Under the tutelage of the IFIs a major neo-liberal economic reform programme was undertaken by former president Olusegun Obasanjo during his 1999-2007 administration. Though he promised to reform the energy sector, investments of up to $16 billion made by the federal government during his eight years in office did not lead to any tangible improvement. In March 2008 this expenditure was the subject of a corruption investigation by the House of Representatives. Former finance minister, Ngozi Okonjo-Iweala, now managing director of the World Bank, and former minister of solid minerals Oby Ezekwesili, currently African vice president of the World Bank, appeared before the investigative panel. Both played crucial roles in power sector reform during Obasanjo's administration.

IFI medicine

Core elements of World Bank and IMF policy in relation to the power sector include:

- unbundling and privatisation of the state electricity company;
- a power bill to accelerate transformation of the electricity sector;
- legislation and technical assistance to promote domestic gas sector reform;
- liberalisation of the downstream petroleum sector;
- funding to address key infrastructure constraints; and
- legislation for bills on fiscal responsibility, procurement, and the Extractive Industries Transparency Initiative.

Nigeria was the first country to have an IMF policy support instrument (PSI) (a non-lending instrument which began in mid-2005, see *Update* 48), to which reform of the power sector is central. A number of key ingredients of the PSI were controversially passed during president Obasanjo's last few days in office. Since 2001 the World Bank has given approximately $300 million in IDA credits for the reform and privatisation of Nigeria's energy sector. Nigeria's ongoing National Energy Development Project (NEDP) which began in 2005 is almost entirely Bank-funded. It consists of five components: transmission; distribution; access expansion and renewable energy; technical assistance for gas pipeline and gas to power projects; and technical assistance for reforms and private participation.

Deregulation fuels kleptocracy

Deregulation of the downstream petroleum market (refining, supply and distribution) has been a key ingredient of IMF and World Bank policy advice since 1999. The most contentious of the IMF's structural benchmarks was the sale of the Kaduna and Port Harcourt oil refineries. The sale was first put on hold due to the difficulty in attracting high quality international investors. Then having been valued at $800 billion, the refineries were sold off during Obasanjo's last days in office in May 2007 for a paltry $500 million to a consortium close to the president called Bluestar Oil Service Limited. The ensuing protests which contributed to a June national strike saw Bluestar withdraw from the deal and its money refunded.

The privatisation process of the downstream oil and gas industry has seen strong opposition from labour groups over the absence of due diligence. The government is heavily criticised for its willingness to sell state assets without ensuring the development of national refining capacity, which would eventually remove the need to import much of the refined petroleum products that Nigeria consumes. It is estimated that the federal government spent a total of $18.6 billion from 2000-2006 to import refined petroleum products. The failure to develop refining capacity favours the few elites who benefit from the monopoly that they hold over refined oil imports.

The sale of the Eleme Petrochemicals plant, in Port Harcourt, was a structural reform of the PSI in October 2005. The plant is the largest of its kind on the continent. National newspapers report that it was sold for approximately $225 million to the Nigerian subsidiary of the Indonesian firm, Indorama Group. The National Union of Petroleum and Natural Gas Workers described this amount as "not worth the spare parts available at the plant". The IFC provided a loan of $75 million and mobilised another $80 million from commercial lenders. The Eleme takeover took place following a presidential directive to commission it. Informal reports state that following the Nigerian National Petroleum Company's refusal to hand over the plant on orders from the presidency, troops took it by force. A memorandum of understanding between the government and the Bureau of Public Enterprises (set up to oversee the privatisation process) apparently agreed that the government should maintain a minimum share of 49 per cent. However, Indorama was given a 75 per cent equity stake in Eleme.

Similarly the sale of the Egbin power station to Korea Power Corporation and Energy Resources Limited for an under priced N 280 million (approximately $2 million) was protested by the National Union of Electricity Employees for the lack of consultation with stakeholders and workers. Egbin is the largest generating station operated by the Power Holding Company of Nigeria and is being privatised through an international competitive tender as one of the unbundled units of the Bank-supported privatisation process.

Failed gas sector reforms

The Bank has been a driving force in terms of technical assistance for reform of Nigeria's gas sector. International oil companies have played a major but entirely secret role in formulating the Bank-supported strategy on reform of the sector. The World Bank provided assistance to the Nigerian government to come up with a national gas strategy by financing and supervising two major studies in 2004.

However, the Bank-supported gas master plan for Nigeria has so far failed to achieve many of its main objectives, including the provision of power across the nation, the increase of exports and the elimination of harmful gas flaring by 2008. Despite reductions, Nigeria is still rated as the world's biggest gas flarer. Most of the gas in the Delta is produced during the process of oil extraction, otherwise known as associated gas. It is one of the most difficult and expensive gas sources to harness and therefore there is no incentive for oil companies not to flare it. The practice has been carried out for over 40 years, exposing Niger Delta communities to catastrophic livelihood damage. Various rulings by the Nigerian authorities since 1984 have been ignored by all the major multinational oil companies who operate in Nigeria, including the latest deadline for phase-out by end 2008.

The World Bank is providing a total of $125 million in risk guarantees to the West Africa Gas Pipeline (WAGP) project, which involves a 680-kilometre transport system designed to carry natural gas from Nigeria to markets in Benin, Togo and Ghana (see *Update* 57). A claim to the Bank's Inspection Panel by affected communities from the area argues that the project violates Bank policies, including those on environmental impact assessment and public consultation. Communities say the Bank has failed to demonstrate how the project will reduce gas flaring or bring benefits to them. The Bank counters that 60 per cent of the gas to supply the WAGP would be associated gas that would be otherwise flared. Nigerian NGO Environmental Rights Action points out that there is no evidence of the construction of an associated gas gathering facility that would make it feasible for WAGP to utilise associated gas that is currently flared.

Energy poor

The Nigerian Electricity Regulatory Commission (NERC) has the legal power to put in place life line tariffs for the poor and to discriminate in favour of essential services such as hospitals. Yet questions remain over its political strength. In August 2007 the commission called on the government to provide subsidies, without which electricity would be unaffordable for millions of Nigerians. However the Bank stated that in order to achieve full cost recovery with an adequate profit margin, the "reasonable average tariff" should be about 30 per cent higher than the one currently in operation. This contradicts the Bank's own Joint Staff Advisory Note on the progress report for Nigeria's poverty reduction strategy (NEEDS) of June 2007 which states "it will be important to establish electricity tariffs which allow cost recovery, while introducing adequate measures to protect vulnerable groups".

The minority of Nigerians connected to the electric grid suffer from frequent and unpredictable black outs. Power is often rationed, meaning that communities receive electricity only on alternate days, and rarely for the full day when they do. Bills are generally issued on the basis of arbitrary estimates, often charging consumers for much more than they have consumed. Mass disconnections of entire communities are common, on the grounds that some households in the area have been refusing to pay their bill. This obliges all those affected to either pay a hefty bribe and/or reconnection fee. Those who can afford to rely on generators, which are cumbersome and extremely expensive to run.

Rural electricity access in Nigeria is less than 20 per cent. Most rural populations are off-grid and almost wholly reliant on wood fuel for domestic needs. Wood is usually collected by women who walk up to eight hours per day to find it. Nearly two-thirds of Nigeria's energy consumption is from traditional burning of fuel wood and agricultural wastes. Any rural electrification that does exist tends to be thanks to diesel generators.

According to the Bank, in a country with over 130 million people, Nigeria's electricity utility company has only 4.6 million customers. Statistics on electricity access, grid capacity and output vary but the second NEEDS report cites installed generation capacity at 6,000 MW, while available energy output is only 3,000 MW. This is less than 30 per cent of the demand, currently estimated to be at 10,000 MW.

Renewables and rural electrification

At a policy level significant developments have been made in renewable energy and rural electrification largely based on the 2006 *Renewable energy master plan* and related documents. However in practise progress appears to have been virtually non-existent. The current renewable energy contribution is about 0.6 per cent of total electricity generation capacity.

The 2005 Electric Power Sector Reform act - central to the NEDP - also emphasises the role of renewable electricity, especially for remote and rural areas. The third component of the NEDP provides assistance for the expansion of renewable energy, though financially it constitutes a small part of the total budget when compared to the transmission component. A 2005 Global Environment Facility project grant is co-financing technical assistance for this renewable energy component.

To date renewable electricity has not been part of the national power planning process. Any plans that did exist were based exclusively on grid extension. By 2005 there were 1,500 incomplete rural electrification projects, which would need an estimated $300 million to complete.

The NEDP states that it "will begin to address barriers to the expanded use of renewable energy technologies, by creating an enabling environment for grid-connected and off-grid renewable energy sources". However, the renewable electricity guidelines identify a number of barriers for renewable energy in Nigeria, including: perceived risk by bankers who still prefer high-reward large-scale conventional electricity investments; absence of Nigerian manufacturing capacity for components of renewable energy technologies such as turbines; and supply chain constraints such as high import tariffs.

The IFIs have been criticised for their willingness to ignore the embezzlement of public funds by Nigerian authorities; their disregard for due process in the projects and policies that they support; their failure to meaningfully engage with civil society; and for their facilitating role in perpetuating the conditions that enable companies operating in the Niger Delta to maintain a monopoly over the country's natural resources. The Nigerian case adds weight to critical analyses of World Bank and IMF energy sector reform programmes. The IFIs have pushed centralised, grid-based models, and a framework based on utility privatisation and private public partnerships, which have failed to effectively provide pro-poor energy.

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